

David Plunkert

The CEO as CIO: An interview with K. V. Kamath of ICICI

Article at a glance

India's largest private bank succeeds primarily because it can rapidly implement technologies, giving it a competitive edge, says the bank's chief executive, K. V. Kamath.

Kamath, CEO of the Industrial Credit and Investment Corporation of India (ICICI), considers information technology so central to the bank's achievements that he manages it himself, without a CIO.

Drawing inspiration from the culture and methodologies of Silicon Valley, Kamath has turned a stodgy industrial lender into a regional powerhouse with assets of \$56 billion.

Having learned to serve low-income consumers cost effectively in India, ICICI now is exploring other markets.

Information technology is so crucial for the success of India's top private bank that the CEO says he oversees it himself.

Leo Puri

Little more than a decade ago, the Industrial Credit and Investment Corporation of India (ICICI) was a vulnerable institution whose primary purpose was to provide industrial loans to support India's economic development. Today, with assets around \$56 billion, ICICI Bank is the country's largest private bank, with a vast consumer base served from more than 614 branches and 2,200 ATMs in 13 countries. K. V. Kamath, who became managing director and CEO in 1996, attributes the bank's success largely to innovations in its use of technology. Borrowing from Silicon Valley, Kamath has encouraged the rapid development and implementation of technologies that enable ICICI to serve vast numbers of customers. He also has begun exploring ways to serve the "unbanked," the lowest-income groups, which constitute much of the emerging market's population.

With an aggressive strategy that some observers see as bordering on audacity, the bank has moved confidently and rapidly to integrate changes in the way it serves customers (ramping up its reliance on ATM and Internet usage) and runs its back-office operations (with inexpensive software development and hardware), all while keeping technology costs at a fraction of those at other large banks. Kamath views IT as so critical to the bank's growth that, rather than delegate to a CIO, he manages the bank's technology himself.

Kamath discussed the bank's journey, and technology's role in it, with McKinsey's Leo Puri at ICICI's modern campus in Mumbai.

McKinsey on IT: *How did ICICI transform itself from a development bank to India's largest private bank?*

K. V. Kamath: We started out in the mid-1950s, when the World Bank was trying to kick-start economic development. In those days development banking basically meant lending to industrial enterprises. We were a listed company right from the beginning, with participation by domestic banks, insurance companies, and global banks. Fast-forward 40 years, and India had opened up. Economic reform was under way, global forces were at work, and a market economy was starting to evolve. All of a sudden, Indian corporations were under pressure to perform. Most of them were our customers, and a lot of them got sick and turned into nonperforming assets.

We looked around and decided that consumer credit was going to be the next big opportunity in India. Once per capita income in a country reaches \$450 to \$500, you tend to see consumer activity take off: consumer durables, cars, homes. We thought we could enter credit by leveraging our core competency—the ability to use technology. We had no competency in banking because we were a term lender, not a retail player. Nor did we have any products, or distribution, or processes, or people. In fact, we had nothing except confidence in our ability to use technology and leaders whom we thought could drive the business.



K. V. Kamath

Vital statistics

Born December 2, 1947, in Mangalore, Karnataka, India

Married with 2 children

Education

Graduated in 1969 with BS in mechanical engineering from Karnataka Regional Engineering College in Surathkal, Karnataka, India

Earned MBA in 1971 from Indian Institute of Management Ahmedabad

Career highlights

ICICI Bank (1996–present)

- Managing director and CEO

Asian Development Bank (1988–96)

- Joined in private-sector department; worked on projects throughout south and east Asia; represented bank on boards of several companies

ICICI (1971–88)

- Served as head of leasing operations, head of resources and treasury operations, and executive assistant to then-chairman S. S. Nadkarni
- Set up strategic-planning division; planned diversification into new business areas of investment banking, venture capital, and credit rating
- Initiated and implemented ICICI's computerization program

Fast facts

Member of the National Council of the Confederation of Indian Industry

Serves on board of Visa International and on boards of several educational institutions, including Indian Institute of Management Ahmedabad

Enjoys watching auto racing and cricket, playing tennis, reading

McKinsey on IT: *It seems that innovation has been central to ICICI right from the start. Where did that innovative spirit come from?*

K. V. Kamath: It was all about survival. Our core franchise was crumbling and we were right on the edge, so we had to reinvent ourselves. We looked at where our strengths lay and focused on them. It's easier to take risks when you're in the position we were in. I guess that's what sparked our innovative and entrepreneurial instincts.

McKinsey on IT: *That may explain why you started out being innovative, but how have you managed to sustain it?*

K. V. Kamath: You're absolutely right: once you've tasted success, it's easy to let go. That's where culture comes in. You need to take that innovative spirit and push it to a level where change, learning, and knowledge sharing become a regular part of your company's culture. We also make a point of not allowing silos to grow. I tell people that if I see a silo, I'm going to take a big stick to it. If you don't do that, silos grow, they get set in stone, and you find you can't do business anymore. Once you get into a mainframe mind-set, say, you start building rigid structures. From day one, our philosophy was "no mainframes." Without them, you can move freely.

McKinsey on IT: *Where did execution figure in your strategy?*

K. V. Kamath: In the late 1990s, garage start-ups in Silicon Valley were taking products from concept to market in 90 days because if they didn't, somebody else would. So we asked, "Why can't we?" We made it a rule: no project was to extend beyond 90 days. People were skeptical at first, but it was achievable, and it gave us a huge competitive edge. When I first heard about the 90-day rule at a seminar, we were building a platform for online brokerage almost from scratch. I got on the phone to Bombay from New York and said, "We need to get this done in 90 days." The project had already been going for 30 days, so in the end I said, "OK, you can have 90 days from today." The trading platform was up and running 90 days later. It cost us just over \$1 million, and with some marginal tweaking—nothing more—it is still operating today.

When you give people a challenge and show them that other people have tackled it, they find solutions. If they are bright and have the basic tools, why shouldn't they?

McKinsey on IT: *Who is responsible for technology at ICICI?*

K. V. Kamath: I am. It's my neck on the line. If the technology fails, it's my fault; if it succeeds, then good for the organization. We decided we had to run technology in a radically different way from anyone else, so we don't have a technology department or a glorious title like chief information officer. There is no CIO. Technology is embedded in every business, and the head of the business runs the technology.

You might ask, "Doesn't this lead to anarchy? Who makes sure that there aren't a zillion servers, and a zillion different models, and so on?" Well, we created a small group—fewer than a dozen people, average age 28—that reports to me. They aren't bureaucrats;

they don't have any decision-making authority. But any critical plan in technology, whether it's hardware or software, is put to them.

McKinsey on IT: *How did you convert your ability to use technology into a competitive advantage?*

K. V. Kamath: User technology is a mind-set issue, but it can get turned into a structural issue because the platforms and the people around them make you rigid. Here, we have no excuse. We want technology that allows us to migrate. Mainframes would have locked us in. Another call we took was that people would use technology even in a country like India. At a time when there were fewer than 100 ATMs in the whole country, we said we would roll out 1,000 ATMs in the first year. People thought we were mad. Who would use them? How would we get connectivity?

The networks here are fragile, so we had to run ATMs at three levels of redundancy, with a dial-up line, a leased line, and a satellite link sitting on top of the whole thing to make it at least 99 percent reliable. As for the customer, what the skeptics hadn't noticed was that convenience was becoming a priority. People didn't have all the time in the world to walk to a bank, stand in line, get served, and come out again. They didn't mind learning to use a bit of technology. It wasn't rocket science. So we kept pushing the envelope. Will customers accept the Internet as a mainline channel? What about call centers? And mobile telephones? They answered yes every time.

To put this in context, we had about 100,000 banking customers in 2000; today we have close to 20 million. Six years ago, maybe 95 percent of all transactions took place in the branch and 5 percent at the ATM. Now branch transactions are down to 15 percent, ATMs have gone up to 48 percent, the Internet is 21 percent, and the call center is 5 percent. Instruments that go directly to the back office for processing, without hitting a branch, account for about 10 percent.

An amazing transformation has taken place. Customers are telling us they want to change. If their bank doesn't change with them, they will be looking for a new bank.

McKinsey on IT: *How have you managed to change with the customer when your competitors haven't?*

K. V. Kamath: Every other bank was skeptical about technology. I can't claim we invented anything for ourselves. There were global banks at the time that were considering using lots of ATMs with a lean branch structure and a thick technology structure. And in India, one bank said in the late 1990s that it would adopt ATMs and have maybe 30 of them around one branch. We thought that looked interesting, and we worked out that we could break even in less than two years. So we scaled up. Nobody else did. We got a head start for the next three or four years, and then everybody started scrambling, but by then it was too late. We were embedded.

The same thing has happened in every business. When we said consumer credit is the next growth opportunity, nobody believed us. We prepared a different structure for

it: no branches but a hub-and-spoke structure with franchisees. We decided to work with partners who had credit scoring and run it centrally. That was completely different from what most players were doing here. Luckily for us, it turned out to be the right model.

McKinsey on IT: *When you explore new businesses, do you do it in the knowledge that some may not succeed?*

K. V. Kamath: When we build a business, we put in enough diligence to make sure it succeeds. So as a base case, we don't allow for failure. We are pretty paranoid about what will happen next, though, particularly in terms of business models. Take cell phones. Are they going to change the way customers interact? Will banks face a new challenge from payment systems that can be embedded in mobile phones and managed by the telephone companies?

There are lots of other issues. Could supermarkets turn out to be a threat to banks? If so, in what way? What is the regulatory context? And the technology context? You need to have a contingency strategy, and that's where threats can lead to success. A word we like to use at ICICI is "disrupt." We are comfortable adopting disruptive strategies and using the technology to disrupt.

McKinsey on IT: *You've said your technology costs are 10 percent of those at other banks. How have you achieved this?*

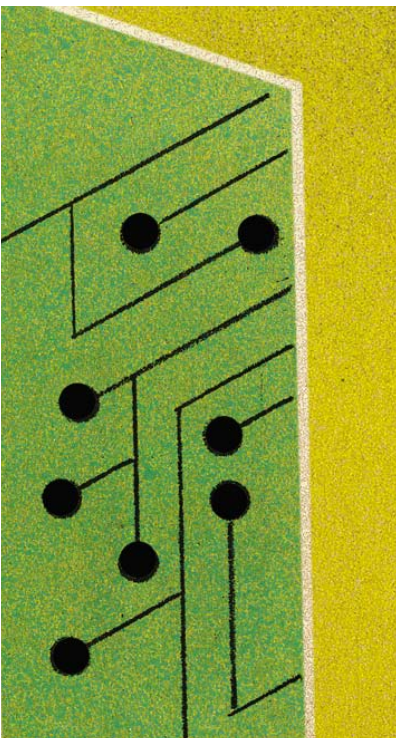
K. V. Kamath: There are two or three elements. The first is hardware. Using systems that allow you to migrate to more efficient systems as you go along brings down costs dramatically.

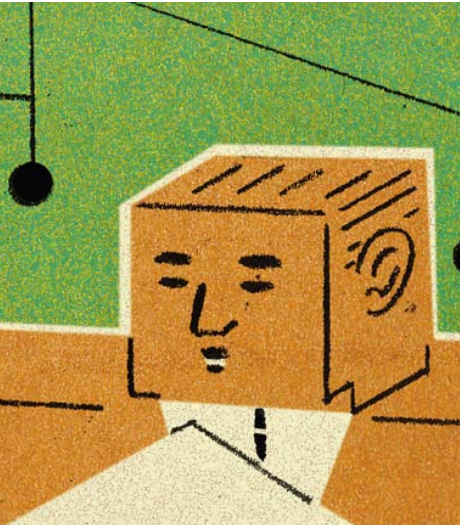
Software is another key part. We work with vendors who recognize that our running costs are a challenge. If a particular vendor is inflexible about pricing, fine, let's discuss it. But if we can't resolve it, I will migrate to a different partner who can give me the product at a price I can afford. You won't believe this, but most of the time the cost of replacement software is only 10 percent of the original cost. So it costs me less to put in new software than to pay the maintenance contracts on my old software.

The third part of the equation is talent. A software professional in India probably costs about a fifth to a tenth of what you would pay elsewhere. Add them all up, and these are the things that make the equation work.

McKinsey on IT: *Recently, ICICI has branched out into many new financial services. What's the philosophy behind your diversification?*

K. V. Kamath: After we got consumer credit right, we looked around for other opportunities that might arise in a country that is opening up. We found a whole load of them: insurance (life and nonlife), private equity and venture funding, securities, investment banking—all were ready to open up. Three years ago, we also started looking at the needs of Indians abroad. There are many individuals and companies doing two-way trade or acquiring companies abroad. So we opened up branches, subsidiaries,





and rep offices across the Americas, Europe, the Middle East, and Southeast Asia. In the next year or so, between 20 and 25 percent of our balance sheet and profits will come from international operations.

The next big horizon is something that strikes a chord with almost any banker anywhere in the world, even in developed countries. I call it “banking for the unbanked.” There are 600 million people in India with no banking facilities at all. They live in 600,000 villages spread over 600 districts. Can we take banking out to them?

There’s no point setting up shop to take in deposits; they don’t have any money. You have to learn to lend to them and create a worthwhile opportunity for them to make some money. That could lead to a savings product, and maybe after that you can lend to them for a small home, for things to put in it, and so on. One product leads to another.

We believe this will require new technology platforms at a fraction of the costs of our current technology. A new delivery architecture is needed too—not based on branches, but using a partnership model. To work in 600 districts, we’ll need at least 200 microcredit institutions, each working on 3 districts.

McKinsey on IT: *Has your global strategy evolved beyond serving Indians abroad?*

K. V. Kamath: Initially, it was nonresident Indians and Indian businesses that took us abroad. But once we were there, we found we could leverage our other competencies. If we are able to run technology for 10 percent of what it costs other banks and handle a large volume of customers online, why shouldn’t we roll out Internet banking in the other countries where we operate, like Canada? We started rolling out the platforms about eight months ago. By back-ending costs to India, we’ve found we can save around 75 basis points in operating costs, and we are passing part of that to the customer in higher deposit rates so that people are happy to come to us. We have a model that we think we can scale up across Canada, the United Kingdom, at least two or three countries in Europe, and maybe one or two countries in the Far East.

Another thing we hadn’t planned for was the ability to cross-sell products to Indians abroad. Take technology workers: they all believe they will be coming back to India before long, so they want homes, and we can provide them with the financing. Or take the people who left in the 1970s; now they are looking for second homes in India. So the global opportunities are looking much bigger and more interesting than they did at the beginning. **MoIT**

Leo Puri (Leo_Puri@McKinsey.com)
is a partner in McKinsey’s Mumbai
office.

Copyright © 2007
McKinsey & Company. All rights
reserved.